

## **Lessons for Brazil from China's Success**

(transcript)

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Clearly, the world is in an extraordinary state of flux and uncertainty, and the year 2003 only exacerbated the uncertainties. This was the message I heard as I traveled for the Secretary-General to five continents in the last two weeks. In a world of such divisions of rich and poor, of pandemic disease, of environmental stress, of continuing demographic pressures, and of huge interconnectedness, everybody in the world is asking, "How do we fit in? What does the war on terrorism really mean for us? Is the world economy unstable? Will it grow? Will it collapse? Can globalization succeed?"

These are questions that nobody can answer; we can only try our best to put our shoulder to the positive forces, and against the negative ones. If I weigh the questions, I do come out on the side that we can certainly make this work, but to do so we have to understand these processes much more deeply than we have to date. I want to try to explain what I think helps a region or a society succeed in the process of globalization, and, knowing that, what we can do to ensure that the benefits of globalization truly spread to the entire world.

About ten days ago I was in East Asia. What a difference in economic outcomes from what we have seen in Latin America in the past two decades! East Asia, as everybody knows, has successfully adjusted to globalization, creating dramatic and positive economic and social change in a vast region. With 1.3 billion people, China has had a doubling of living standards now for each decade for the past quarter century, at a time when Latin America has been almost stagnant. It therefore behooves us to ask what's happening, why is such dynamic progress being made, and how can those lessons be more generally applied to Brazil, to Latin America, and of course to the regions of the world even more desperately being left behind, such as Sub-Saharan Africa, where President Lula is visiting today.

The Chinese progress is complex and highly debated, but I think that what stands fundamentally at the core of China's progress is the decision a quarter century ago to embrace the globalization process, and to understand that China's economic progress could only be assured if China took on the challenge of becoming competitive in the world economy. After Mao's death in 1976, Deng Xiao Ping came to power, and flung open the doors of China, after a long period in which China had been one of the most closed societies in the world. Of course, the most remarkable aspect of that change was that within a period of twenty years, China became one of the powerhouses of the world economy. In the coastal regions of China, with a

population of about 300 million people, foreign investors have brought in capital at a rate of about 50 billion dollars a year in recent years to establish enterprises for global production.

What China's economic reforms really meant was that China went out to achieve competitiveness in world markets by bringing in world-class technology, world-class capital and a business environment in which production could be carried out efficiently and at low cost by international standards. By bringing in vast amounts of technology and capital during roughly the last twenty years, China went from being a nearly closed economy, where exports were on the order of about 20 billion dollars in mostly primary commodities, to having exports of almost 350 billion dollars this year, an increase of more than fifteen times in the last two decades.

Of course, this is changing geopolitics as well as economics. China has by now accumulated more than four hundred billion dollars of foreign exchange reserves, it is perhaps the largest holder of US treasury bills of any single investor in the world, and it is now increasingly the political powerhouse of Asia, as well as the economic powerhouse of Asia. When President Bush went to Asia a couple of weeks ago to complain about China's economic policies, what was notable was that virtually all of Asia's leaders sided with China against the pressures of the United States, because China plays such an important economic role now throughout the entire East Asian region that nobody wanted to let the United States jeopardize that engine of dynamism. Geopolitics follows economics.

Globalization has proved to be a success for China in political terms as well as in economic development. What I think is notable and crucial in this lesson was the conscious decision of China's leadership that economic success cannot be achieved by looking inward, the strategy that Mao had followed, and that China had to use its full range of economic policies to promote the export competitiveness of China's industrial production.

This is where I think Asia and Latin America fundamentally differed in the past twenty years. China in the 1980s and 1990s, and India in the 1990s, said, "We have to export to survive," and, "By exporting and competing aggressively in the world market we'll raise technology, by raising technology we'll raise living standards and we'll raise our geopolitical status." On the other hand, Latin America remained until the past decade very much inward-looking, often nursing its wounds rather than looking out to world markets.

I remember distinctly, and with some distress, a conversation I had with a Brazilian government leader in the mid-1990s, a few years after the initial success of the stabilization program here in 1994. I said, "You're not competing internationally, Brazil is not exporting dynamically to the world, it is not attracting foreign investment the same way that China is." He replied with something which was very categorical, and very much part of the mindset of this region until very recently. He said, "Jeff, don't worry so much. We have a huge internal market. Our business can

make money addressing the internal market.” He lost his job the next year, in the balance of payments crisis of 1999.

The point really stuck with me; there was a notion in Brazil, Argentina, and in much of the region until recently, that one can live with natural resource exports and basically focus on the internal market, and this stood in stark contrast to what I was seeing in Asia on each visit over the past twenty years. I think things are changing dramatically now in Brazil, and potentially in other parts of Latin America, though not yet enough.

After the crisis of 1999, Brazil had a sudden spurt of exports. Brazilian business saw that exports were really not only a way to survive, but to thrive. For the first time in quite a long time, Brazilian political leadership got the notion that Brazil’s ability to compete internationally may be the defining element of the strategy of economic development. As I review the newspapers and look at the recent political decisions here, I’m happy to see that a good notion seems to be taking hold: globalization is increasingly seen as a strategy for development, and Brazil’s competing in the world is fundamental to success. It is the lesson of success in other parts of the world, and it is still the unmet challenge for Latin America.

As I said at the beginning, many of the trends in this region are conducive to success in meeting the challenge of globalization. Brazil, I think, has everything that it takes to do it, if there is a strategic focus on being a competitive world leader. However, it requires a change of emphasis and a change of strategy from what has been typical for several decades. Most importantly, with a Brazilian population that is increasingly centered in the working age, with slowing population growth, and with an increasingly educated population, Brazil has the chance to follow the same trends as China, and to achieve the same kind of growth rates that have eluded this country for the past quarter-century.

In my opinion, there are two fundamental structural targets that would need to be achieved for this success, and they’re closely related.

The first is a major renewed and bold focus on educational achievement in Brazil, that is, a greatly expanded investment in education at every level. It must particularly ensure that every Brazilian child has at least completed secondary education, and that a substantial proportion of Brazil’s children are achieving university-level education in the coming years. Without this, Brazil will not be able to capitalize on its great opportunity today. It will maintain its competitiveness in traditional sectors: agriculture, primary commodities, and basic industry. However, that will not be enough to achieve the kind of dynamism that we know to be possible in the global economy. For that, Brazil will need education that far exceeds current standards, where the average of years of schooling completed in the Brazilian adult education is only on the order of five years today, and where it should be at least ten to fifteen years, looking a generation ahead.

The second (closely-related) aspect of strategy which China's success illustrates, and which is yet to be implemented in most of Latin America, is the recognition that successful global competitiveness requires a strategy and an untiring effort at technological upgrading. This comes through investments in research and development and through investments in capital goods that raise productivity via technological advance.

Every time I have visited Asia in the last decade, the discussions have been the same – almost everything was about technology: biotechnology, agricultural technology, electronics, advances in information and communication technology, how to reorder the scientific community in China, and how to increase public investment in science. This discussion, which I think is at the core of the economic advance, is not the kind of discussion that one typically has in Latin America, at least not until very recently. Korea and Taiwan are investing almost 3% of their Gross Domestic Product in research and development these days. China is now investing 1% of its Gross Domestic Product in science, and that percentage is rising rapidly. In Brazil, the investments in research and development are still only a little bit above 0.5% of Gross Domestic Product. In Argentina, they are even lower: less than a 0.5% of Gross Domestic Product. In Bolivia, Peru, Colombia, Ecuador, and Venezuela, your Andean neighbors, the investments in research and development are even lower. Successful globalization requires an educated population making advances in science and technology. Therefore, investments in education need to be complemented by investments in research and development. That way, the traditional sectors of the past are no longer looked upon as the basis for economic advance in the future.

Almost every month in the United States, I'm flying on an Embraer, a wonderful Brazilian aircraft displaying state of the art technology. That's the kind of industry that can propel Brazil to the highest levels of income in the future. However, that industry, and so many others that Brazil could excel in (consumer appliances, electrical machinery, information technology, agricultural biotechnology, etc.), require the kind of concerted national effort that has not been high on the agenda.

I was asked yesterday about biotechnology. Should Brazil adopt agrobiotechnology? Not only should Brazil adopt agrobiotechnology, Brazil should see itself as in the scientific lead in that technology. Here is an area which, on the one hand, plays to the core of Brazil's strengths – agriculture – and on the other hand brings the most cutting-edge biological knowledge; how could Brazil turn away from such promising technology? China is investing heavily in this area; they will be your competitors in the future. You should be prepared to meet the competition.